

Capital Investment and Sales Expectations for 1963

Business Anticipates Record Outlays and Sales

EXPENDITURES for new plant and equipment are budgeted by businessmen at a record \$39 billion for 1963, 5 percent above the 1962 total of \$37½ billion. Expenditures are expected to resume the 1961-62 uptrend after a slight easing during the fall and winter.

A broad range of industries expects sales to increase to new highs in 1963. Both manufacturing and trade anticipate advances of about 4 percent while public utilities are placing this year's revenues about 5 percent above 1962's.

Planned investment moderately higher in 1963

The 5-percent rise in capital spending projected for 1963 would represent a better-than-average annual growth, for the postwar period although it is not so high as the 8½ percent increase recorded from 1961 to 1962. These outlays have never been characterized by regularity but tend to "bunch" in investment booms and then fall off sharply. Since the capital investment surge of 1956-57 expenditures for new plant and equipment have not made a favorable showing. The 1957 record investment outlay was not again equaled until late last year, although fourth quarter 1962 gross national product had risen 25 percent above its 1957 high.

The moderate advance anticipated for this year thus is not a greatly stimulating factor to the economy as a whole. At the present time the factors influencing investment show a mixed picture—some favorable and others adverse. Profits have been higher, and their effect on cash flow has been augmented by faster depreciation schedules; external financing costs have remained relatively low; and the invest-

ment tax credit has a beneficial effect on both equipment costs and financing. On the other hand, the recent slow rate of growth of final demand for goods and services has resulted in less-than-full utilization of existing capacity.

Industry programs for 1963

Most major industry groups expect increases in fixed investment in 1963. Durable goods manufacturers anticipate a rise of more than a tenth in their capital expenditures this year over the 1962 total. (See chart.) The dollar increase for this group accounts for two-fifths of the total advance anticipated by all business although capital outlays by durable goods producers represent about one-fifth of aggregate fixed investment by all nonfarm industries. The group also registered one of the largest relative advances in 1962-12 percent.

While accounting for only a small proportion of total business capital outlays, railroads show the largest relative increases both in 1962 actual spending and in their projection of a one-seventh rise for 1963.

Communications and commercial firms have had especially strong investment programs since 1957 and anticipate a further advance of 6 percent in 1963.

Moderate increases over 1962 are planned by nondurable goods manufacturers and by public utilities—3 percent each. Declines in 1963 purchases of new plant and equipment are anticipated by mining and nonrail transportation companies, with airlines accounting for most of the reduction in the latter group.

Quarterly programs for 1963

Capital outlays during the first 3 months of 1963 are now expected to hold at the fourth quarter 1962 seasonally adjusted annual rate of \$38

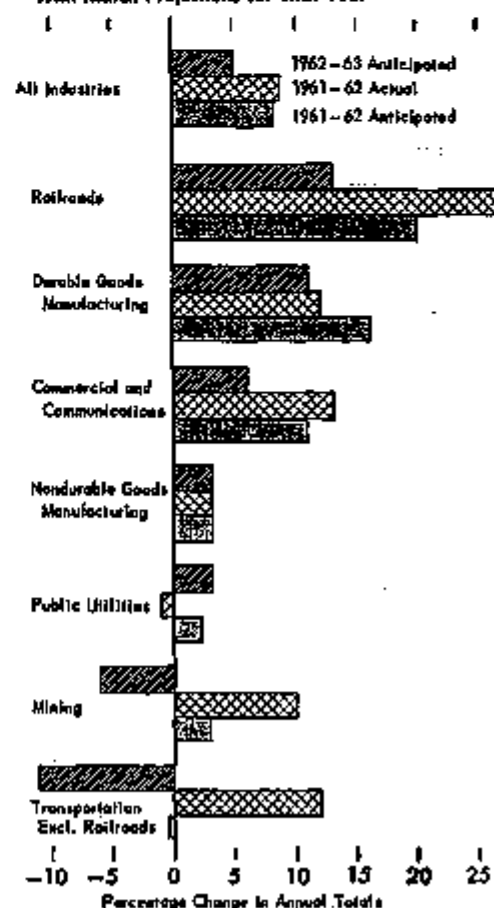
billion. Businessmen then plan to make capital outlays of \$38½ billion in the second quarter, with the rise centered in transportation and public utilities.

The realization of these quarterly and annual 1963 programs imply spending at a \$40 billion seasonally adjusted annual rate in the second half of this year.

This would represent a rise of nearly 5 percent over the projection for the first half of 1963, with the advance attributable to the programs of durable

BUSINESS EXPENDITURES FOR PLANT AND EQUIPMENT

- Budgeted at \$39 Billion for 1963 or 5 Percent Above 1962
- Aggregate Expenditures in 1962 Were in Line With March Projections for That Year



U.S. Department of Commerce, Office of Business Economics

43-3-4

1. Data in this article are based upon the regular survey of new plant and equipment expenditures conducted jointly by the Office of Business Economics and the Securities and Exchange Commission. Reports on 1963 anticipations were submitted by cooperating companies during February. The agricultural industry, foreign investment and expenditures for capital items charged to current account are not covered by these recurring surveys.

goods manufacturers, public utilities, communications, and commercial firms.

Mining, railroad, and nondurable goods producers indicate some drop later this year.

Realization of 1962 programs

Programs for business capital spending in 1962, as reported in March of last year, were realized during the year with offsetting changes among the industry groups. Actual spending amounted to \$37.3 billion—the projection last March was for outlays of \$37.2 billion. Durable goods manufacturers spent 4 percent less than scheduled, and utilities 2 percent less. Nondurable goods companies' outlays matched early budgets. Nonrail transportation had the largest upward revision, about 12 percent, while outlays by railroads and mining companies were close to 7 percent above anticipations of a year ago. The reduction from earlier programs by durable goods producers centered in the iron and steel industry.

Purchases of new productive facilities dipped below projections in the first quarter of last year, while expenditures in the second and third quarters equaled or exceeded planned outlays. During the final 3 months of 1962 actual expenditures were 1 percent less than anticipated. Outlays in the fourth quarter were 1 percent below the third quarter, on a seasonally adjusted basis. Results of the current survey seem to indicate that some of the spending earlier budgeted for the fourth quarter was carried over into 1963.

Rising Manufacturing Investment

The lag in fixed investment relative to the rise in general activity over the past 5 years has centered in manufacturing, and more particularly in the durable goods industries. Projected outlays for new factory facilities in 1963 of \$15.7 billion—while 7 percent higher than those of 1962—will still fall just short of the 1957 total of \$16 billion.

Actual expenditures for new plant and equipment in the fourth quarter of 1962 by durable goods manufacturers were 20 percent above the 1961 recession low; by late this year outlays

are expected to expand another 10 percent. A volume of spending of more than \$8 billion is implied for the second half of 1963.

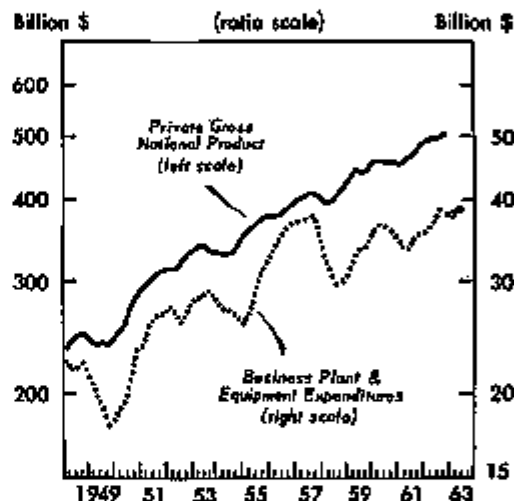
The rise in 1963 programs over 1962 outlays for the durable goods sector is paced by transportation equipment producers. Both motor vehicle and nonautomotive transportation equipment manufacturers anticipate 1963 investments to be 13 percent and 15 percent higher, respectively, than last

year. The corresponding increases in 1962 were 12 percent and 23 percent. These outlays in 1963, however, still do not equal former records.

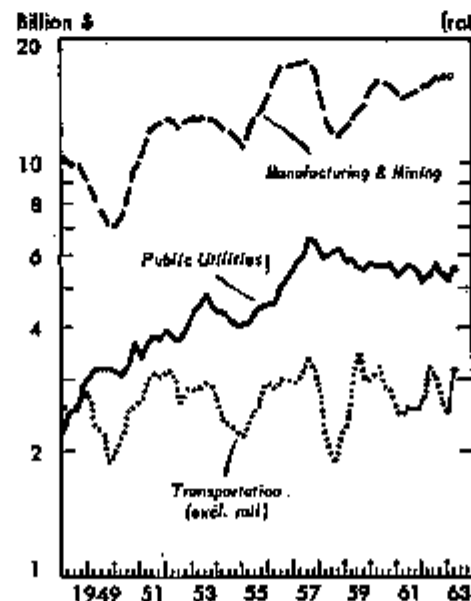
Metals producers are also raising their investment considerably for the current year. Iron and steel companies plan expenditures of about \$1½ billion—up a 10th from their 1962 aggregate. Last year actual spending dipped a little below 1961. Nonferrous metals producers are anticipating increased

BUSINESS EXPENDITURES FOR PLANT AND EQUIPMENT

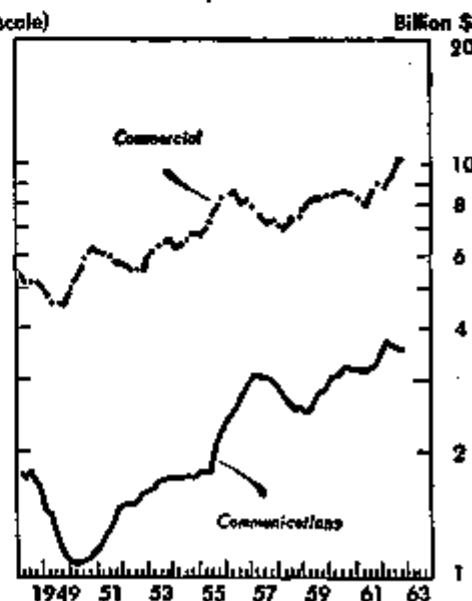
- Capital Spending Programed at New Highs in 1963
- Outlays Have Lagged During Past 5 Years



Manufacturing, Public Utilities and Transportation Outlays Below Previous Peaks



Investment by Communications and Commercial Companies at Record Rates



• Anticipated

U.S. Department of Commerce, Office of Business Economics

Quarterly Data, Seasonally Adjusted, at Annual Rates

Date: SEC & OBE

63-3-5

Table 1.—Business Sales, Actual and Anticipated, 1961-63

(Percent change)		
	Actual 1961-62	Anticipated 1962-63
Manufacturing Industries.....	8	4
Durable goods industries.....	11	4
Iron and steel.....	7	2
Nonferrous metal.....	1	3
Electrical machinery.....	9	8
Machinery, except electrical.....	9	8
Motor vehicles and parts.....	24	2
Other transportation equipment.....	11	0
Stone, clay, and glass.....	8	4
Nondurable goods industries.....	5	4
Food and beverage.....	5	4
Textile.....	12	2
Paper.....	6	5
Chemical.....	10	6
Petroleum.....	-1	3
Rubber.....	11	0
Trade.....	8	6
Retail.....	8	6
Wholesale.....	4	3
Public utilities.....	7	5

Sources: U.S. Department of Commerce, Office of Business Economics and Securities and Exchange Commission.

outlays following a substantial rise last year, though 1963 programs are well below the peaks of 1956-57.

Current plans of capital goods producers—electrical and nonelectrical machinery manufacturers—call for a small cutback in 1963, about 4 percent. Capital outlays by the electrical machinery industry in 1962 were fractionally below the 1961 high. Programs for 1963 anticipate a steady rate of spending through the year. Nonelectrical machinery producers also indicate little quarterly change during 1963 following the rather sharp pickup last year. Both industries are expecting sales increases of about 5 percent this year—the largest advances anticipated among durable goods producers. (See chart.)

If nondurable goods producers' investment programs are realized 1963 outlays of nearly \$8 billion will just match the previous high in 1957. The 3-percent rise over 1962 expected for this year is about the same as last year's, but outlays are expected to be at a steady rate throughout 1963.

Pacing the nondurable goods group both in 1963 and 1962, textile manufacturers are planning an increase of a sixth in new plant equipment expenditures after a rise of one-fifth last year. Anticipated spending is above \$700 million this year for a new record, and shows a strong uptrend during 1963. Depreciation rules were relaxed earlier

for this industry than for other businesses. The industry had made substantial outlays in the early postwar period but during most of the 1950's expenditures for new plant and equipment were relatively low.

Noteworthy also in the nondurable goods group is the 8-percent advance in investment planned by the chemical group for this year. This contrasts with a 3-percent drop last year. Little change is expected in the second half from that in the first 6 months of the year. Sales have shown a strong uptrend in this industry and the projected 6-percent rise in shipments for 1963 is larger than for any other manufacturing industry.

In contrast, petroleum and rubber companies are cutting back on capital outlays. The declines of 4 percent and 6 percent from 1962 are of the same magnitude as the increases in the preceding year.

Paper manufacturers and other nondurable goods producers, except in the food and beverage field, are raising capital budgets. The increases planned are somewhat larger than the actual gains recorded last year. Again in 1963 as in 1962, food and beverage producers are holding capital outlays at the 1961 rate.

Nonmanufacturing Investment Programs Mixed

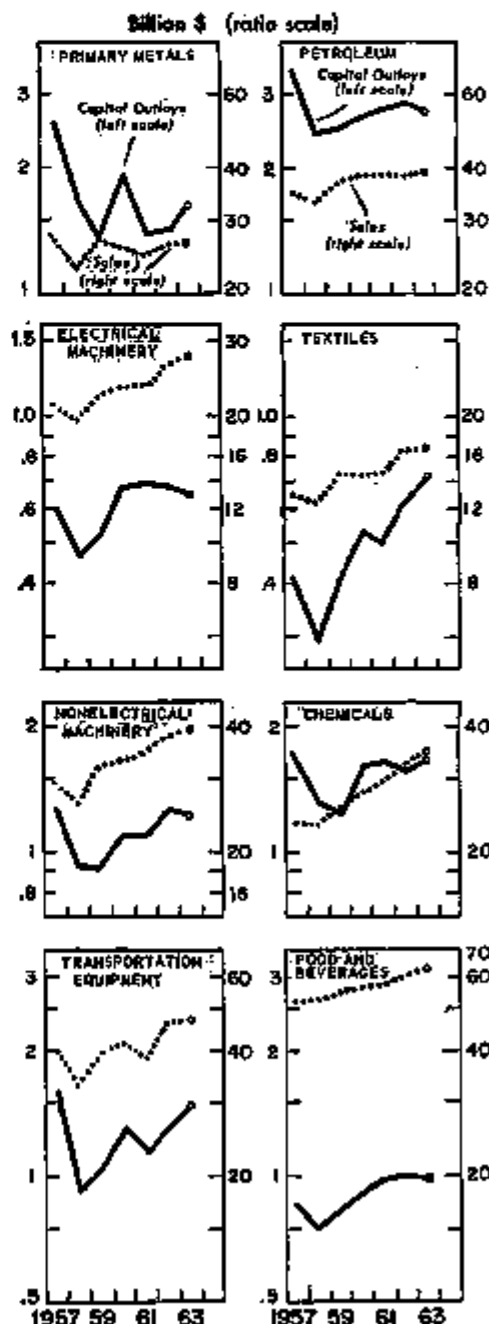
Capital spending in nonmanufacturing in the past 5 years has presented a stronger picture than has manufacturing. This has been due in large measure to the firm uptrend in expenditures for new plant and equipment by communications and commercial firms, whose outlays are currently at peak rates (see chart). Current budgets call for outlays 6 percent larger than in 1962 in contrast with the 12 percent rise last year.

Within the commercial group retail trade remains the strongest area of expansion. The continuing rise in retail sales, coupled with population shifts and new retailing techniques have combined to offer attractive possibilities for further expansion and improvement of retail facilities. Wholesale, service, and construction firms, on the other hand, are reducing capital budgets for this

year, while finance companies are holding capital spending just above 1962 levels.

In 1962 expenditures for new railroad facilities rose considerably and a further substantial rise is anticipated this year. However, 1963 capital outlays would total \$1 billion compared with the record \$1½ billion in 1951. In both 1962 and 1963 plans, the expansion in out-

MANUFACTURERS GENERALLY PROJECT SALES UPWARD, BUT INVESTMENT PATTERNS MIXED



U.S. Department of Commerce, Office of Business Economics 63-3-6

lays for equipment is relatively greater than for road.

Public utilities' investment in new capital equipment has fluctuated within a narrow range in recent years, following the sharp rise through 1957. Their 1963 capital budgets indicate a continuation of this situation: for the group as a whole spending is scheduled to rise 3 percent to \$5.7 billion this year, after a minor dip from 1961 to 1962.

Electricity demand for the past 5 years has been rather stable as a proportion of dependable capacity. Over the period, however, indicated reserves as a percent of peak load have risen from 15 percent to 25 percent—the highest reserve margin in the postwar period.

The electric utility companies account for all of the planned rise this year. However, gas firms after a dip in the first half are scheduling a substantial increase in the second half close to the rather high second half rate of 1962 for this group.

In transportation other than railroads, planned 1963 outlays are to be cutback a tenth from last year's spending which was one-sixth above 1961.

Reductions in purchases of new facilities are widespread among the various transportation groups, with only pipeline companies indicating higher outlays this year. Airlines' programs indicate the largest relative decrease in 1963.

New Sales Records

Companies cooperating in this survey generally expect higher sales in 1963 than in 1962. Manufacturers, trade firms, and the public utilities all look forward to record rates of operation. Manufacturers expect the value of 1963 shipments to be 4 percent higher than in 1962, with the durable and nondurable goods groups sharing about equally in the advance. The quarterly survey of manufacturers' sales and inventory

expectations published elsewhere in this issue suggests that a larger advance is expected in the second half year than in the first.

The actual increase in durable goods sales last year was 11 percent, as compared to an anticipation last March of 9 percent. Nondurable goods producers' sales in 1962 were 6 percent above 1961, about the same as indicated in last year's survey.

Within both the hard and soft goods sectors, expectations of higher sales are widespread among the major industries. The largest advances are anticipated by electrical machinery and chemical producers. The smallest rates of expected increases are shown by transportation equipment and textile firms.

Retailers and wholesalers are looking forward to sales expansion in 1963 of 6 percent and 3 percent, respectively,

(Continued on page 11)

Table 2.—Expenditures on New Plant and Equipment by U.S. Business,¹ 1961–63

(Millions of dollars)

	Annual			Quarterly, Unadjusted												Quarterly, Seasonally Adjusted at Annual Rates											
	1961	1962	1963 ^a	1961				1962				1963				1961				1962				1963			
				I	II	III	IV	I	II	III	IV	I ³	II ³	III ³	IV ³	I	II	III	IV	I	II	III	IV	I ³	II ³		
All Industries.....	34.37	37.31	39.18	7.57	8.61	8.95	9.54	8.02	8.50	9.42	10.18	8.48	9.09	34.85	35.50	34.79	35.40	35.79	35.06	35.35	37.95	37.95	38.65	37.95	37.95	38.65	
Manufacturing Industries.....	12.08	14.48	15.09	3.09	3.45	3.34	3.88	3.14	3.60	4.72	4.13	3.77	3.99	13.75	13.50	13.65	14.00	14.29	14.45	15.05	15.08	15.38	15.38	15.38	15.38		
Durable goods Industries.....	4.27	7.03	7.78	1.41	1.58	1.80	1.70	1.44	1.77	1.79	2.03	1.03	1.96	6.80	0.30	0.10	0.40	0.35	0.08	7.25	7.30	7.30	7.30	7.30	7.30		
Primary iron and steel.....	1.13	1.19	1.22	.38	.28	.28	.30	.22	.25	.23	.31	.26	.31	1.35	1.06	1.10	1.10	1.00	1.10	1.20	1.10	1.20	1.20	1.20	1.20		
Primary nonferrous metal.....	.25	.41	.42	.07	.07	.08	.07	.08	.07	.08	.10	.08	.10	.20	.28	.23	.28	.23	.20	.20	.20	.20	.20	.20	.20		
Electrical machinery and equipment.....	.60	.66	.65	.15	.17	.17	.20	.14	.17	.21	.21	.13	.15	.15	.10	.10	.10	.10	.05	.05	.05	.05	.05	.05	.05		
Machinery, except electrical.....	1.10	1.27	1.23	.25	.28	.28	.32	.27	.33	.33	.35	.25	.33	1.15	1.10	1.03	1.15	1.10	1.20	1.20	1.20	1.20	1.20	1.20	1.20		
Motor vehicles and parts.....	.75	.88	.94	.15	.20	.19	.21	.17	.22	.22	.22	.21	.26	.70	.80	.79	.80	.80	.85	.90	.85	.90	.85	.90	.85		
Transportation equipment, excluding motor vehicles.....	.20	.47	.44	.00	.10	.09	.11	.09	.11	.12	.15	.12	.14	.40	.40	.35	.40	.40	.40	.40	.40	.40	.40	.40	.40		
Stone, clay and glass.....	.41	.65	.61	.11	.13	.12	.16	.12	.16	.14	.16	.13	.15	.18	.15	.15	.15	.15	.15	.15	.15	.15	.15	.15	.15		
Other durable goods ^a	1.48	1.70	2.10	.30	.36	.34	.43	.38	.44	.44	.53	.44	.44	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
Nondurable goods Industries.....	7.40	7.05	7.00	1.80	1.89	1.84	2.00	1.69	1.83	1.83	2.10	1.72	2.04	7.25	7.30	7.55	7.40	7.00	7.50	7.80	7.70	7.80	7.80	7.80	7.80		
Food and beverages.....	.90	.90	.90	.23	.23	.24	.27	.29	.29	.30	.34	.23	.30	.23	.30	.25	.30	.25	1.00	1.00	1.00	1.00	1.00	1.00	1.00		
Textile.....	.40	.61	.73	.12	.12	.12	.14	.12	.16	.18	.17	.15	.17	.60	.46	.60	.50	.55	.60	.65	.65	.65	.65	.65	.65		
Paper.....	.69	.72	.77	.10	.17	.16	.18	.14	.18	.18	.20	.10	.18	.75	.70	.65	.70	.70	.70	.70	.70	.70	.70	.70	.70		
Chemical.....	1.62	1.64	1.68	.33	.42	.40	.45	.37	.46	.37	.48	.30	.44	1.60	1.65	1.65	1.70	1.53	1.60	1.60	1.60	1.60	1.60	1.60	1.60		
Petroleum and coal.....	2.78	2.58	2.78	.60	.70	.70	.80	.62	.68	.70	.80	.60	.64	2.70	2.75	2.85	2.80	2.85	2.70	2.85	2.85	2.85	2.85	2.85	2.85		
Rubber.....	.22	.23	.23	.05	.05	.05	.07	.04	.06	.06	.06	.04	.06	.46	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
Other nondurable goods ^a.....	.05	.03	.07	.14	.17	.16	.18	.14	.18	.16	.18	.10	.10	.20	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
Mining.....	.96	1.08	1.01	.21	.24	.25	.26	.26	.27	.28	.27	.23	.22	.95	1.00	1.00	1.00	1.15	1.05	1.10	1.00	1.05	1.05	1.05	1.05		
Railroad.....	.67	.85	.96	.37	.38	.36	.36	.36	.36	.34	.30	.22	.30	.79	.79	.65	.68	.79	.95	1.00	.80	.95	.95	.95	.95		
Transportation, other than rail.....	1.86	2.07	1.84	.41	.48	.47	.59	.47	.58	.50	.50	.36	.51	1.75	1.88	1.80	1.95	2.06	2.26	2.09	1.90	1.95	1.95	1.95	1.95		
Public utilities.....	2.53	2.48	2.46	1.00	1.29	1.50	1.64	1.04	1.37	1.54	1.62	1.07	1.42	3.25	3.30	3.30	3.35	3.15	3.30	3.45	3.45	3.45	3.45	3.45	3.45		
Communication.....	3.23	3.63	3.64	.75	.81	.78	.89	.83	.83	.87	.85	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
Commercial and other ^a	4.46	3.52	.....	1.04	2.64	2.35	2.22	2.05	2.37	2.48	2.69	2.22	2.39	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....

¹ Data exclude expenditures of agricultural business and outlays charged to current account.

² Estimates are based on anticipated capital expenditures reported by business in late February 1963. The estimates for 1963 have been adjusted when necessary for systematic tendencies in anticipatory data.

³ Includes fabricated metal, lumber, furniture, instrument, ordnance, and miscellaneous industries.

⁴ Includes apparel, tobacco, leather, and printing-publishing.

¹ Includes trade, services, finance, and construction. The anticipated expenditures and the seasonally adjusted data also include communication.

Note.—Details may not add to totals due to rounding. Data for earlier years were published in the June 1956, March 1958, 1960, 1961, and 1962 Survey of Current Business.

Sources: U.S. Department of Commerce, Office of Business Economics, and Securities and Exchange Commission.

Table 2.—Manufacturers' Evaluation of the Condition of Their Inventories¹

	Total			Durable			Nondurable		
	High	About right	Low	High	About right	Low	High	About right	Low
March 31, 1959	18	70	12	20	75	5	14	80	6
June 30, 1959	23	71	6	20	84	7	14	80	6
September 30, 1959	18	71	11	21	74	15	14	81	5
December 31, 1959	23	72	5	25	68	7	20	78	2
March 31, 1960	21	67	12	29	80	1	28	77	3
June 30, 1960	35	63	2	42	57	1	26	71	3
September 30, 1960	29	70	1	30	83	1	20	78	1
December 31, 1960	28	71	1	32	67	1	22	77	1
March 31, 1961	22	77	1	24	78	1	19	80	1
June 30, 1961	18	81	1	19	80	1	16	82	2
September 30, 1961	12	88	2	13	85	2	10	87	3
December 31, 1961	12	88	2	12	85	2	11	80	3
March 31, 1962	16	82	2	21	78	1	9	89	3
June 30, 1962	14	85	1	18	81	1	0	89	3
September 30, 1962	15	83	2	18	81	1	11	85	3
December 31, 1962	14	84	2	17	82	1	11	88	3

1. Condition of actual inventories relative to sales and unfilled orders position as viewed by reporting companies. Percent distribution of inventory book values according to company's classification of inventory condition.

Source: U.S. Department of Commerce, Office of Business Economics.

now about 1.7 times sales, a ratio similar to that of the 1955-56 upswing after seven quarters of recovery but below that of similar periods in the other postwar expansions. Stocks of appliance-furniture and lumber-hardware stores are now low relative to sales by earlier postwar standards, while automotive dealers' stock-sales ratios are about the same as in 1962 but lower than experienced in other years since the introduction of the compacts.

The stock-sales ratio of nondurable

goods distributors (both wholesalers and retailers) changed little in 1961 and the first half of 1962 and subsequently declined to 1 month of sales. Retailers in particular have been showing evidence of a conservative inventory policy. The current stock-sales ratio is well below a year ago, and about the lowest since the early postwar period. General merchandise stocks are especially low relative to sales, while the ratios for food and apparel stores are somewhat low.

Housing Activity in Early 1963

(Continued from page 8)

still showing of comparatively little change, which is not expected to pick up for another few years.

Income and other factors

The slowdown in the growth in income, as compared with the early postwar years, may also be favoring the multifamily advance. Average cost per housing unit, after allowing for price rise, has been going up over the years as a reflection of the higher quality housing accommodations desired by consumers with rising incomes. As the growth in income has slowed, this upward trend toward improved quality has similarly diminished, showing up as a shift

toward smaller, less costly housing accommodations. Thus, from 1959 to 1962, unit costs for single-family and multifamily units have each advanced about 7 to 9 percent respectively but the combined cost per unit is up only 1 percent over this period.

Moreover, with the virtual disappearance of the inflationary pressures of the earlier postwar years, there may be more uncertainty attached to new home buying than before. As long as prices were moving strongly upward, the new house purchaser could be assured of recapturing his equity plus some capital gain on a resale, so that the means of financing a higher priced home was, in a sense, automatically insured.

Vacancies a little lower

There is no evidence from surveys by the Census Bureau to indicate any considerable increase in vacancies in the past 2 years despite the large volume of multifamily construction in the recent past. In fact, vacancies for all types of rental units (single-family included) were actually a bit lower in 1962 than in 1961, as may be seen in table 2.

Some decline in vacancies appears to have started in the summer of 1961, or very shortly after the time that the recent housing advance was getting underway. Not much change has occurred, however, since the latter part of last year.

Financing continues favorable for housing

Financing conditions remain relatively favorable for housing even though demographic and income effects are less favorable to single-family homes. With private fixed investment demand continuing sluggish, business inventory demand of small magnitude, and business in a highly liquid condition, lenders have had ample funds available for builders and home purchasers. Long-term interest rates are still edging downward, continuing the modest decline that started in the middle of 1961 and the somewhat steeper decline that may be dated from the end of 1959.

Capital Investment

(Continued from p. 7)

or about the same as the actual gains experienced in 1962. Last year, retail sales were better than anticipated while wholesalers' sales were slightly below expectations. Retailers' sales in the first 2 months of the year were up 7 percent over a year ago.

Electric and gas utilities are projecting less of an increase in revenues this year than the actual gain achieved last year. Revenue increases of 5 percent are looked for this year by both segments of the industry as compared to 7 percent advances from 1961 to 1962. The projected rise for 1962 as reported last March was 8 percent.